Total Costs and Expenses

	1997	CHANGE	1996
	(DOLLARS IN THOUSANDS)		
Operating Costs	$22,459	222%	$ 6,969
Product development and engineering	11,984	90%	6,312
Sales and marketing	11,863	86%	6,368
General and administrative	10,635	76%	6,054
Total costs and expenses before cost and amortization of distribution agreement	56,941	122%	25,703
Cost and amortization of distribution agreements	9,246	N/A	--
Total costs and expenses	$66,187	N/A	$25,703

Total Costs and Expenses. Total costs and expenses before the cost and amortization of distribution agreements was $56.9 million for 1997 and $25.7 million for 1996. This increase was primarily a result of:

- operating costs associated with expansion and deployment of the @Home broadband network to support the @Home service subscriber growth;
- additional corporate infrastructure investments; and
- the start-up of @Work services.

Operating Costs. Operating costs were $22.5 million for 1997 and $7.0 million for 1996. This increase of $15.5 million in operating costs was primarily attributable to the following factors in the following proportions:

- approximately 25% to ongoing expansion of customer service operations;

- approximately 25% to maintenance and depreciation from capital equipment used in support of the @Home broadband network and headend architecture;

- approximately 25% to telecommunications costs to support the deployment of the @Home broadband network to additional sites; and,
- approximately 15% to launch costs for our @Work services.

Product Development and Engineering. Product development and engineering expenses were $12.0 million for 1997 and $6.3 million for 1996. This increase of $5.7 million in product development and engineering expenses was primarily attributable to the following factors in the following proportions:

- approximately 45% to ongoing design, testing and deployment of the @Home broadband network; and,

- approximately 35% to the initiation of efforts to incorporate Internet technologies into advanced digital set-top boxes.

Sales and Marketing. Sales and marketing expenses were $11.9 million for 1997 and $6.4 million for 1996. This increase of $5.5 million in sales and marketing expenses was primarily attributable to the following factors in the following proportions:

- approximately 45% to additional spending on sales and marketing activities to support the expansion of regional deployments of the @Work services; and,

- approximately 40% to increased spending on sales and marketing activities to support the expansion of regional deployments of the @Home services.

General and Administrative. General and administrative expenses were $10.6 million for 1997 and $6.1 million for 1996. This increase was the result of:

- additions of personnel to support our operations;
- stock compensation charges resulting from stock options and stock purchase agreements;
- additional facilities expenditures; and
- additional expenses related to activities and requirements of becoming a publicly traded company.

Interest Income, Net. Interest income, net represents interest earned by our cash and short-term cash investments, less interest expense on our debt obligations. Interest income, net was $3.0 million for 1997 and $514,000 for 1996. Interest income for 1997 was $4.2 million as compared to $693,000 for 1996. This increase was principally due to the increased balances available to invest resulting from our preferred stock financing in April 1997 and our initial public offering in July 1997. Interest expense for 1997 was $1.2 million as compared to $179,000 for 1996. This increase was due primarily to significant increases in capital lease obligations associated with our leasing of capital equipment.

Income Taxes. Due to operating losses incurred since inception, we have not recorded a provision for income taxes in 1997 or 1996.

Net Loss. The net loss before the charge for the cost and amortization of distribution agreements was $46.5 million for 1997 and $24.5 million for 1996. The net loss for 1997 of $55.7 million includes amortization of $9.2 million related to the distribution agreement with Cablevision. The increase in net loss before the amortization from the agreement with Cablevision was primarily a result of additional business activities, partially offset by the additional revenues attributable to the expansion of our @Home and @Work services.

LIQUIDITY AND CAPITAL RESOURCES

Since inception, we have financed our operations primarily through a combination of private and public sales of equity and convertible debtsecurities and capital equipment leases. At December 31, 1998, our principal source of liquidity was $419.3 million of cash, cash equivalents and short-term cash investments, as compared to $120.4 million at December 31, 1997.

In September 1997, we entered into a term loan agreement with Silicon Valley Bank. The term loan, as amended in October 1998, provides for borrowings of up to $15.0 million to finance the acquisition of property, equipment and improvements, and to collateralize letters of credit. At our option, borrowings under this term loan bear interest either at the Bank's prime rate or at LIBOR plus 2.5%. As of December 31, 1998, there were no borrowings under this term loan although there were outstanding letters of credit in the amount of $3.5 million related to real property transactions. Under the term loan, we are required to meet certain financial covenants. The term loan expires on October 19, 2002.

Net cash used in operating activities for 1998 was $30.2 million. This is primarily the result of a net loss of $144.2 million, which was reduced by non-cash items for:

- charges for performance warrants charges earned under distribution agreements, $49.8 million;
- amortization of the distribution agreements, $51.6 million; and
- depreciation and amortization from operations of $15.0 million.

An $8.1 million increase in accounts receivable occurring in connection with our growth in revenues also impacted our cash used in operating activities.

Net cash used in investing activities in 1998 was $54.8 million. This use of funds was the result of purchases of net short-term investments of $43.1 million and $16.8 million in cash purchases of property, equipment and improvements as part of our continued expansion in core businesses. Gross capital expenditures for equipment, software, furniture, leasehold improvements and fixtures for 1998 was $29.7 million and for 1997 was $26.5 million, of which $12.9 million in 1998 and $16.5 million in 1997 were financed through capital leases.

In December 1998, we entered into an agreement with AT&T to create a nationwide network utilizing AT&T's backbone. Under this agreement, we will pay AT&T $45 million in each of 1999 and 2000, including payments of $18 million on August 30, 1999 and $27 million on September 1, 2000. We expect to make additional disbursements of approximately $5 million per year over the next few years for backbone capacity, equipment and maintenance fees.

Net cash provided by financing activities for 1998 was $341.5 million. Of this increase, $130.8 million resulted primarily from the sale of common stock in 1998 and $222.4 million resulted from the net proceeds from our sale of convertible debentures in December 1998.

We believe that we have the financial resources needed to meet our presently anticipated business requirements, including capital expenditure and strategic operating programs, for at least the next 12 months. Thereafter, if cash generated by operations is insufficient to satisfy our liquidity requirements, we may need to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity or convertible debt securities may result in additional dilution to our stockholders. We may not be able to raise any such capital on terms acceptable to us or at all.

We are headquartered in facilities consisting of approximately 135,000 square feet in Redwood City, California, which we occupy under a 12-year lease.
In September 1997 and March 1998, we exercised build-to-suit options requiring the landlord to build additional facilities of approximately 360,000 square feet
on adjacent property. All facilities constructed under our build-to-suit optionswill be subject to leases of up to 15 years in length, have base rent determined
in relation to construction costs and will include tenant improvements paid for
by us. The build-to-suit options that have been exercised to date provide for monthly rental payments beginning upon the phased completion of the buildings. Occupancy of the first phase is scheduled to occur during the second half of 1999, and occupancy of the second phase is scheduled to occur early in 2000. In
addition to our build-to-suit options, in December 1998 we exercised our right to purchase one land parcel from the landlord. The purchase price of the exercised option is payable in two installments, one of $278,000, which was paid
in December 1998, and a second installment of $5,288,000, which is due in the first half of 1999. We also have smaller offices in Waltham, Massachusetts and Bala Cynwyd, Pennsylvania. We believe that our existing facilities and the facilities we have the right to have built will be adequate to accommodate our growth for the foreseeable future.

DISCLOSURES ABOUT MARKET RISK

The following discusses our exposure to market risk related to changes in interest rates, equity prices and foreign currency exchange rates.

Interest Rate Sensitivity.

Short-Term Investments. We had short-term investments of $118.6 million at
December 31, 1998. These short-term investments consist of highly liquid investments with original maturities at the date of purchase of between three and twelve months. These investments are subject to interest rate risk and will
fall in value if market interest rates increase. A hypothetical increase in market interest rates by 10 percent from levels at December 31, 1998 would cause
the fair value of these short-term investments to decline by an immaterial amount. Because we are not required to sell these investments before maturity, we have the ability to avoid realizing losses on these investments due to a sudden change in market interest rates. However, we could choose to sell these investments before maturity at a loss. Declines in interest rates over time will, however, reduce our interest income.

Outstanding Convertible Debt. At December 31, 1998, we had outstanding long-term convertible debentures of approximately $229.3 million at a fixed interest rate of 4%. In certain circumstances, we may be required to redeem these debentures for our Series A common stock or cash. Because the interest rate on these debentures are fixed, a hypothetical 10 percent decrease in interest rates would not have a material impact on us. Increases in interest rates could, however, increase the interest expense associated with future borrowings by us, if any. We do not hedge against interest rate increases.

Equity Price Risk.

We own 86,000 shares of common stock of Exodus Communications. We purchased these shares at the time of Exodus' initial public offering in March 1998 at a price of $15.00 per share. At December 31, 1998, the closing price of Exodus' common stock was $64.25 per share. We value this investment using the closing fair market value stated in the Wall Street Journal for the last day of each month. As a result, we reflect this investment in our balance sheet at December 31, 1998 at its market value of $5.5 million, with the unrealized gains and losses excluded from earnings and reported in the "Accumulated Other Comprehensive Income" component of stockholders' equity. We do not hedge against equity price changes.

Foreign Currency Exchange Rate Risk.

Substantially all of our revenues are realized in U.S. dollars and most of our revenues are from customers in the United States. Therefore, we do notbelieve we face significant direct foreign currency exchange rate risk. We do not hedge against foreign currency exchange rate changes.

IMPACT OF ADOPTION OF NEW ACCOUNTING STANDARDS

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and displaying comprehensive income and its components. Additionally, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes reporting standards regarding operating segments, products and services, geographic areas and major customers. We adopted these Statements in 1998. Adoption of these Statements did not have a material impact on our consolidated financial position, results of operations or cash flows.

In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." We expect to adopt this Statement effective January 1, 2000, which will require that we recognize all derivatives on our balance sheets at fair value. We do not anticipate that the adoption of this Statement will have a significant effect on our results of operations or financial position.

In March 1998, the AICPA issued SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which establishes guidelines for the accounting for the costs of all computer software developed or obtained for internal use. We adopted SOP 98-1 effective for the year ended December 31, 1998. The adoption of SOP 98-1 did not have a material impact on our consolidated financial statements.

In April 1998, the AICPA issued SOP 98-5, "Reporting on the Costs of Start-Up Activities," which is effective for fiscal years beginning after December 15, 1998. The statement requires costs of start-up activities and organization costs to be expensed as incurred. We are required to adopt SOP 98-5 for the year ended December 31, 1999. The adoption of SOP 98-5 is not expected to have a material impact on our consolidated financial statements.

IMPACT OF THE YEAR 2000 ISSUE

Year 2000 computer issues create certain risks for us, although we believe that such risks are less significant than those faced by many companies due to the fact that we commenced operations in 1995. If our internal and network information systems do not correctly recognize and process date information beyond the

year 1999, there could be an adverse impact on our operations. To address these Year 2000 issues with our internal and network systems, we have initiated a program to evaluate our internal and network systems. We and our majority shareholder, TCI, have initiated a comprehensive program to address Year 2000 readiness in our systems and with our customers' and suppliers' systems. The program has been designed to gather information regarding the Year 2000 compliance of products and services that we require to deploy our residential and commercial Internet services. Under the program, assessment and remediation are proceeding in tandem and are intended to have our critical systems in Year 2000 compliance by June 30, 1999. These activities are intended to encompass all major categories of systems that we use, including network management, customer service and business operations. The costs incurred to date related to the program have not been material. We currently expect that the total cost of our Year 2000 readiness program will not exceed $750,000 over the next fiscal year. The total cost estimate does not include potential costs related to any customer or other claims or the costs of internal software or hardware replaced in thenormal course of business. The total cost estimate is based on the current assessment of our Year 2000 readiness needs and is subject to change as the program proceeds.

As part of the normal course of our operations, we are currently in the process of transitioning to or implementing new computer software for our accounting, billing, network management, human resources and other management information systems. We are assessing and testing these systems for Year 2000 dependencies and will implement changes to such systems if necessary. The successful implementation of these new systems is crucial to the efficient operation of our business. We may not be successful implementing new systems in an efficient and timely manner, and the new systems may not be adequate to support our operations. Problems with installation or initial operation of the new systems could cause substantial difficulties in operations planning, business management and financial reporting, which could have a material adverse effect on our business. The cost of bringing our new systems into Year 2000 compliance, if necessary, is not expected to have a material effect on our financial condition or results of operations.

We have also initiated formal communications with many of our significant suppliers to determine the extent to which we are vulnerable to these suppliers' failure to remedy their own Year 2000 issues. We have already received assurances of Year 2000 compliance from a number of those suppliers. Most of the suppliers have no contractual obligations under existing contracts to provide us with this information. We are taking steps with respect to new supplier agreements to seek assurance that the suppliers' products and internal systems are Year 2000 compliant. Despite these assurances, we may still experience supplier-related Year 2000 problems.

Although we currently expect that the Year 2000 issue will not pose

significant operational problems, delays in the implementation of new information systems or a failure to fully identify all Year 2000 dependencies in
our existing system and in the systems of our suppliers could have material adverse consequences. Therefore, we are developing, but do not yet have, contingency plans for continuing operations in the event these problems arise.

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors and the other information in this Form 10-K before investing in our common stock. Our business and results
of operations could be seriously harmed by any of the following risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATED TO OUR BUSINESS

OUR BUSINESS IS UNPROVEN, AND WE MAY NOT ACHIEVE PROFITABILITY

We were incorporated in March 1995, and we commenced operations in August 1995; we have incurred operating losses in each fiscal period since our inception. As of December 31, 1998, we had an accumulated deficit of $227.2 million. In addition, we currently intend to increase capital expenditures and operating expenses in order to expand our network and to market and provide our
services to a growing number of potential subscribers. As a result, we expect to
incur additional net operating losses before cost and

amortization of distribution agreements and amortization of goodwill and other intangible assets for at least the next three quarters.

The profit potential of our business model is unproven. Our @Home servicewas available only in portions of 59 geographic markets as of December 31, 1998
and may not achieve broad consumer or commercial acceptance. Although approximately 2,053 organizations have agreed to utilize @Work services as of December 31, 1998, our @Work services may not achieve broad commercial acceptance and the current rate of deployment for @Work services may not be sustained. We have difficulty predicting whether the pricing models for our Internet services will prove to be viable, whether demand for our Internet services will materialize at the prices our cable partners charge for the @Home
service or the prices we or our cable partners charge for @Work services, or whether current or future pricing levels will be sustainable. If such pricing levels are not achieved or sustained or if our services do not achieve or sustain broad market acceptance, our business will be significantly harmed. We may never achieve favorable operating results or profitability.

SEVERAL FACTORS MAY INHIBIT THE GROWTH OF THE @HOME SERVICE

As of December 31, 1998, we had approximately 331,000 cable modem subscribers, including recently acquired Internet subscribers that are being converted to the @Home service. Our ability to increase the number of subscribers to the @Home service to achieve our business plans and generate future revenues will be dependent on a number of factors, many of which are beyond our control. For instance, certain cable partners from time to time have
not achieved subscriber levels which we had originally anticipated. These factors include, among others:

- the rate at which our current and future cable partners upgrade their cable infrastructures

- our ability and the ability of our cable partners to coordinate timely and effective marketing campaigns with the availability of cable infrastructure upgrades

- the success of our cable partners in marketing and installing the @Home service in their local cable areas

- the prices that our cable partners set for the @Home service and for its installation

- the speed at which our cable partners can complete the installations required to initiate service for new subscribers

- the commercial availability of DOCSIS-compliant, self-installable modems and the success of our roll-out of these products with the @Home service

- the quality of customer and technical support provided by us and our cable partners

- the quality of content on the @Home service

We believe subscriber growth has been constrained, and will continue to be constrained, by the cost and the amount of time required to install the @Home service for each residential consumer. In addition, our growth has been constrained by the rate at which our cable partners have upgraded their cable systems, and most of our cable partners are not obligated to upgrade their cable infrastructures or market the @Home service. Moreover, the @Home service is currently priced at a premium to many other online services, and large numbers of subscribers may not be willing to pay a premium for the @Home service. Because of the preceding factors, among others, our actual revenues or the rate at which we will add new subscribers may differ from our forecasts. We may not be able to increase our subscriber base in accordance with our internal forecasts or the forecasts of industry analysts or to a level that meets the expectations of investors. The rate at which subscribers have increased during 1998 does not necessarily indicate the rate at which subscribers may be expected to increase in the future. In particular, while we have recently forecast thatour number of subscribers could grow to over 1.1 million by December 31, 1999 from approximately 331,000 subscribers at December 31, 1998, we may not achieve this level of subscriber growth, particularly given the risks set forth here.

OUR OPERATING RESULTS MAY FLUCTUATE SIGNIFICANTLY

Our operating results may fluctuate significantly due to a variety of factors, many of which are outside our control. Factors that may affect our operating results attributable to our @Home service include:

- the timing of our cable partners' upgrades of their cable infrastructures and roll-outs of the @Home service

- the rate at which customers subscribe to our Internet services and the prices subscribers pay for these services

- changes in the revenue splits between us and our cable partners

- the demand for electronic commerce

- the effectiveness of our cable partners' marketing, installation and other operations

Operating results attributable to our @Work services are dependent on:

- the demand for, and level of acceptance of, our corporate Internet, intranet and extranet connectivity and telecommuting solutions

- the introduction of, demand for, and level of acceptance of, our value-added business applications

- in part, the timing of our cable partners' upgrades of their cable infrastructures

- the effectiveness of our cable partners' marketing and other operations

- competitive pressures, including pricing pressure and the availability of competing technologies, in the market for business Internet services

- the creditworthiness of our @Work customers

Following discussions with the staff of the Securities and Exchange Commission, we recently restated our financial statements for the year ended December 31, 1997 and the first three quarters of 1998 to record as intangible assets and amortize ratably over their useful lives amounts that were previously expensed in connection with our Cablevision distribution agreement. Our operating results have been and will continue to be adversely affected by significant charges associated with warrants issued to current and potential cable partners in connection with distribution agreements.

Our quarterly revenues and operating results are difficult to forecast even in the short term. A significant portion of our expenses are fixed in advance based in large part on future revenue forecasts. If revenue is below expectations in any given quarter, the adverse impact of the shortfall on our operating results may be magnified by our inability to adjust spending to compensate for the shortfall. Moreover, our cable partners have complete discretion regarding the pricing of the @Home service in their territories, which could further impact our ability to generate revenue. A shortfall in actual compared to estimated revenue could significantly harm our business.

THE SCALABILITY, SPEED AND SECURITY OF OUR NETWORK IS UNPROVEN Due to the limited deployment of our services, the ability of our network to connect and manage a substantial number of online subscribers at high transmission speeds is as yet unknown, and we face risks related to our network's ability to be scaled up to its expected subscriber levels while maintaining superior performance. The network may be unable to achieve or maintain a high speed of data transmission, especially as our subscribers increase. In recent periods, the performance of the network has experienced some deterioration in certain markets as a result of subscriber abuse of the @Home service. While we seek to eliminate such abuse by limiting users' upstream bandwidth, our failure to achieve or maintain high-speed data transmission would significantly reduce consumer demand for our services. In addition, while we have taken steps to prevent users from sharing files via the @Home service and to protect against "email spamming," public concerns about security, privacy and reliability of the cable network, or actual problems with the security, privacy or reliability of our network, may inhibit the acceptance of our Internet services.

WE FACE CHALLENGES MANAGING OUR EXPANDED OPERATIONS AND WE DEPEND ON KEY PERSONNEL

We may not be able to successfully manage any future periods of rapid growth or expansion, which we expect to place a significant strain on our managerial, operating, financial and other resources. From time to time, we and our cable partners have had difficulty managing network operations and expansion of backbone capacity and providing adequate customer service or efficient provisioning of new subscribers. A prolonged failure to perform these functions successfully would significantly inhibit subscriber growth and retention. We are highly dependent upon the efforts of our senior management team, and our future performance will depend, in part, upon the ability of senior management to manage growth effectively. This will require us:

- to implement additional management information systems capabilities

- to further develop our operating, administrative, financial and accounting systems and controls

- to maintain close coordination among engineering, accounting, finance, marketing, sales and operations

- to hire and train additional technical and marketing personnel

There is intense competition for senior management, technical and marketing personnel in the areas of our activities. The loss of the services of any of our senior management team or the failure to attract and retain additional key employees could significantly harm our business. We maintain no key-person life insurance.

WE DEPEND ON TWO-WAY CABLE MODEMS BASED UPON A NEW INDUSTRY STANDARD

Each of our subscribers currently must obtain a cable modem from a cable partner to access the @Home service. The North American cable industry has recently adopted a set of interface standards known as DOCSIS for hardware and software to support the delivery of data services over the cable infrastructure utilizing interoperable cable modems. We believe that these specifications, together with our distribution relationships with CompUSA, Compaq and Dell, will facilitate the growth of the cable modem industry and the availability of lower cost, interoperable cable modems through retail channels. However, certain of our cable partners have chosen to delay some deployments of the @Home service until the widespread commercial availability of DOCSIS-compliant cable modems. Our subscriber growth could be constrained and our business could be significantly harmed if our cable partners choose to slow the deployment of the @Home service further, as a result of the timing of widespread commercialavailability of DOCSIS-compliant cable modems or otherwise. Cable modems that are DOCSIS-compliant are not expected to be available in significant quantities until at least the second quarter of 1999. Although multiple vendors are expected to supply DOCSIS-compliant cable modems and their constituent components, any cable partner's reliance on a single provider of these modems

or
components could cause that cable partner to be unable to generate expected subscriber growth for the @Home service if the supplier does not provide the cable partner with a sufficient quantity of DOCSIS-compliant modems.

OUR MARKETS ARE HIGHLY COMPETITIVE

The markets for consumer and business Internet services and online content are extremely competitive, and we expect that competition will intensify in the future. Our most direct competitors are other providers of cable-based Internet services, unaffiliated cable companies, national long-distance and local exchange carriers, Internet and online service providers, and Internet content aggregators.

We compete with other cable-based services. Our competitors in the cable-based services market are those companies that have developed their own cable-based services and market those services to unaffiliated cable system operators that are planning to deploy data services. In particular, Time Warner Inc. and MediaOne Group have deployed high-speed Internet access services over their existing local HFC cable networks through their cable-based Internet service, Road Runner, which features a variety of proprietary content from Time Warner Publications. Time Warner's substantial libraries of multimedia content could provide Road Runner with a significant competitive advantage. In June 1998, Microsoft and Compaq each invested $212.5 million in Road Runner and announced that Microsoft will provide software for the Road Runner service and that Compaq will produce cable-ready personal computers to be used with the service.

Time Warner and MediaOne plan to market the Road Runner service through their own cable systems as well as to other cable system operators nationwide. Although we do not presently compete directly with the Road Runner service for subscribers because Road Runner is offered over different cable systems than those that carry the @Home service, we do compete with the Road Runner service in seeking to establish distribution arrangements with cable system operators. Furthermore, if and when our existing cable partners cease to be subject to their exclusivity obligations, we may compete with Road Runner and potentially other Internet service providers for distribution over the cable systems of our cable partners. In addition, other cable system operators, including Adelphia Communications Corporation, have launched their own cable-based Internet services that could compete with our services.

We also compete with other high-speed telecommunications technologies. Long distance inter-exchange carriers, such as AT&T, MCI Worldcom and Sprint have deployed large-scale Internet access networks and sell connectivity to business and residential customers. The regional Bell operating companies and other local exchange carriers have also entered this field and are providing price competitive services. Many such carriers are offering diversified packages of telecommunications services, including Internet access, to residential customers and could bundle these services together, which could put us at a competitive disadvantage. Many of these competitors are offering or may soon offer technologies that will compete with some or all of our high-speed data service offerings. These technologies include integrated services digital network (ISDN) and asymmetric digital subscriber line (ADSL). In January 1998, technology companies including Compaq, Intel and Microsoft together with numerous telecommunications providers announced an initiative to develop a simplified version of ADSL, referred to as "ADSL Lite," which is intended to reduce the complexity and expense of installing Internet services based on ADSL. Also, inOctober 1998, the International Telecommunications Union adopted an ADSL standard called G Lite. Widespread commercial acceptance of ADSL technologies could significantly reduce the potential subscriber base for our Internet services, which could significantly harm our business.

We compete with other online services. We also compete with Internet service providers that provide basic Internet access to residential consumers and businesses, generally using existing telephone network infrastructures. While not offering the advantages of broadband access, these services are widely available and inexpensive. In addition, we compete with online service providers such as America Online, Inc. that provide, over the Internet and on proprietary online services, content and applications ranging from news and sports to consumer videoconferencing. These services currently are designed for broad consumer access over telecommunications-based transmission media, which enables the provision of data services to the large group of consumers who have personal computers with modems. America Online and Bell Atlantic have recently entered into an agreement whereby America Online will offer its Internet services using Bell Atlantic's advanced digital subscriber line infrastructure. Online service providers also provide basic Internet connectivity, ease of use and consistency of environment. In addition to developing their own content or supporting proprietary third-party content developers, online services often establish relationships with traditional broadcast and print media outlets to bundle their content into the service.

We compete with content aggregators and Internet portals. Finally, we compete with content aggregators and Internet portals that seek to capture audience flow by providing ease-of-use and offering content that appeals to a broad audience. Leading companies in this area include America Online, Yahoo| Inc. and Lycos, Inc. In this market, competition affects existing and potential relationships with both content providers and subscribers. The principal bases of competition in attracting content providers include quality of demographics, audience size, cost-effectiveness of the medium and ability to create differentiated experiences using aggregator tools. The principal bases of competition in attracting subscribers include richness and variety of content and ease of access of the desired content. Many online service providers, such as America Online, have the advantage of large customer bases, industry experience, many content partnerships and significant resources.

Many of our competitors have more resources than we do. Many of our competitors and potential competitors have substantially greater financial, technical and marketing resources, larger subscriber bases, longer operating histories, greater name recognition and more established relationships with advertisers and content and application providers than we do. These competitors may be able to undertake more extensive marketing

campaigns, adopt more aggressive pricing policies and devote substantially more resources to developing Internet services or online content than we could. We may not be able to compete successfully against current or future competitors, and competitive pressures could significantly harm us. Further, as a strategic response to changes in the competitive environment, we and our cable partners may make certain pricing, service or marketing decisions or enter into acquisitions or new ventures that could significantly harm us.

WE FACE CHALLENGES ASSOCIATED WITH OUR JOINT DEVELOPMENT EFFORT WITH TCI

We were selected by TCI to develop software and provide integration services for TCI's next generation advanced digital set-top devices. Although we believe this relationship could enable us to expand our product line and market the @Home service to a broader audience of consumers who do not regularly use a personal computer, the agreement does not require that TCI deploy the @Home service on these set-top devices, and we cannot predict when these set-top devices will become commercially available. Notwithstanding our agreement withTCI, we cannot deploy set-top device Internet services over the cable infrastructure of TCI or our cable partners without their consent.

In addition to the technological, financial and infrastructure challenges TCI faces in deploying the new set-top devices, the success of this development effort is subject to:

- the technological and operational challenges of providing and supporting email and other Internet services to set-top device users

- competition from alternative Internet service providers and deployment technologies

- the degree to which consumers desire Internet services, including email, on their televisions

In addition, our cable partners can work with third parties to develop and deploy set-top devices, and even if they do choose to work with us, our revenue split on any fees generated from services deployed on these devices may differ from our revenue split with respect to our current high-speed cable Internet services.

OUR DEPENDENCE ON OUR NETWORK EXPOSES US TO A SIGNIFICANT RISK OF SYSTEM FAILURE

Our operations are dependent upon our ability to support our highly complex network infrastructure and avoid damage from fires, earthquakes, floods, power losses, telecommunications failures and similar events. The occurrence of a natural disaster or other unanticipated problem at our network operations center or at a number of our regional data centers could cause interruptions in our services. Additionally, failure of our cable partners or companies from which we obtain data transport services to provide the data communications capacity we require, as a result of natural disaster, operational disruption or any other reason, could cause interruptions in the services we provide. Any damage or failure that causes interruptions in our operations could significantly harm our business.

WE MUST RESPOND TO RAPID TECHNOLOGICAL CHANGE

The markets for consumer and business Internet access services and online content are characterized by rapid technological developments, frequent new product introductions and evolving industry standards. The emerging nature of these products and services and their rapid evolution will require that we continually improve the performance, features and reliability of our network, Internet content and consumer and business services, particularly in response to competitive offerings. We may not be successful in responding quickly, cost effectively and sufficiently to these developments. There may be a time-limited market opportunity for our cable-based consumer and business Internet services, and we may not be successful in achieving widespread acceptance of our services before competitors offer products and services with speed and performance similar to or better than our current offerings. In addition, the widespread adoption of new Internet or telecommuting technologies or standards, cable-based or otherwise, could require that we make substantial expenditures to modify or adapt our network, products and services. This could fundamentally affect the character, viability and frequency of Internet-based advertising and content services. Finally, new Internet or telecommuting services or enhancements that we offer may contain design flaws or other defects.

YEAR 2000 ISSUES COULD AFFECT OUR BUSINESS

If our internal and network information systems do not correctly recognize and process date information beyond the year 1999, we may not be able to conductoperations. To address these Year 2000 issues, we and our majority shareholder, TCI, have initiated a comprehensive program to address Year 2000 readiness in our systems and with our customers' and suppliers' systems. The program has been designed to gather information regarding the Year 2000 compliance of products and services that we require to deploy our residential and commercial Internet services. Under the program, assessment and remediation are proceeding in tandem, and we intend to have our critical systems in Year 2000 compliance by June 30, 1999. These activities encompass all major categories of systems that we use, including network management, customer service and business operations.
The costs incurred to date related to the program have not been material. We currently expect that the total cost of our Year 2000 readiness program will not exceed $750,000 in 1999. The total cost estimate does not include potential costs related to any customer or other claims or the costs of internal software or hardware replaced in the normal course of business. The total cost estimate is based on the current assessment of our Year 2000 readiness needs and is subject to change as the program proceeds.

As part of our normal course of operations, we are currently in the process of transitioning to or implementing new computer software for our accounting, billing, network management, human resources and other management information systems. We are assessing and testing these systems for Year 2000 compliance and will implement changes to these systems, if necessary. The successful implementation of these new systems is crucial to the efficient operation of our business. However, we may not implement our new systems in an efficient and timely manner, and the new systems may not be adequate to support our operations. Problems with installation or initial operation of the new systems could cause substantial difficulties in operations planning, business management and financial reporting, which could significantly harm our business, financial condition and results of operations. The cost of bringing our new systems into Year 2000 compliance, if necessary, is not expected to have a material effect on our financial condition or results of operations.

We have also initiated formal communications with many of our significant suppliers to determine the extent to which we are vulnerable to these suppliers' failure to remedy their own Year 2000 issues. We have already received assurances of Year 2000 compliance from a number of those suppliers. Most of the suppliers have no contractual obligations under existing contracts to provide us with this information. We are taking steps with respect to new supplier agreements to seek assurance that the suppliers' products and internal systems are Year 2000 compliant. Despite these assurances, we may still experience supplier-related Year 2000 problems.

Although we currently expect that the Year 2000 issue will not pose significant operational problems, delays in the implementation of new information systems or a failure to fully identify all Year 2000 dependencies in our existing system and in the systems of our suppliers could have material adverse consequences. Therefore, we are developing, but do not yet have, contingency plans for continuing operations in the event these problems arise.

WE FACE CHALLENGES EXPANDING INTERNATIONALLY

A key component of our strategy is expansion into international markets. To date, we have developed distribution relationships only with United States, Canadian and Dutch cable system operators. We have extremely limited experience in developing localized versions of our products and services and in developing relationships with international cable system operators. We may not be successful in expanding our product and service offerings into foreign markets.
In addition to the uncertainty regarding our ability to generate revenues from foreign operations and expand our international presence, there are certain risks inherent in doing business internationally, such as:

- regulatory requirements (including the regulation of Internet access)

- legal uncertainty regarding liability for information retrieved and replicated in foreign jurisdictions

- export and import restrictions

- tariffs and other trade barriers

- difficulties in staffing and managing foreign operations

- longer payment cycles

- problems in collecting accounts receivable

- fluctuations in currency exchange rates

- seasonal reductions in business activity during the summer months in Europe and certain other parts of the world

- potential inability to use European customer information due to new European governmental regulations

- potential adverse tax consequences

One or more of these factors could significantly harm our international operations and therefore our business.

OUR BUSINESS MAY BE IMPACTED BY CABLE UNBUNDLING PROPOSALS AND OTHER GOVERNMENT REGULATION AND LEGAL UNCERTAINTIES

Federal regulation could harm our business. Currently, our services are not directly subject to regulations of the Federal Communication Commission or any other federal or state communications regulatory agency. However, changes in the regulatory environment relating to the Internet market, including regulatory changes that affect telecommunications costs, limit usage of subscriber-related information or increase the likelihood or scope of competition from the regional Bell operating companies or other telecommunications companies, could affect our pricing or ability to market our services successfully. For example, regulation of cable television rates may affect the speed at which our cable partners upgrade their cable systems to carry our services. Similarly, legislation considered in the last Congress, which would have restricted the use of subscriber information by interactive computer services for marketing and other purposes, could adversely affect the marketing of our services as well as our revenue from advertising.

Local franchise authorities could seek to regulate our services. Many of our United States cable partners' local cable affiliates have elected to classify the provision of the @Home service as additional cable services under their respective local franchise agreements, and to pay franchise fees in accordance with those agreements. Local franchise authorities may attempt to subject cable systems to higher or other franchise fees or taxes or otherwise require cable operators to obtain additional franchises in connection with their distribution of the @Home service. There are thousands of franchise authorities, and thus it will be difficult or impossible for us or our cable partners to operate under a unified set of franchise requirements.

The FCC could require our cable partners to grant our competitors access to the cable infrastructure. America Online, MindSpring Enterprises, Inc., Consumers Union and other parties have requested the FCC to require cable operators to provide Internet and online service providers with unbundled access to the cable infrastructure. In the event that the FCC were to require third-party access to the cable infrastructure, Internet and online service providers could potentially provide services over the cable infrastructure of our cable partners that compete with our services. If the FCC or anothergovernmental agency were to classify our cable partners as common carriers of Internet services, or if they were to seek such classification as a means of protecting themselves against liabilities, our rights as the exclusive residential high-speed Internet service provider over the systems of our United States cable partners could be lost. In addition, if we or our United States cable partners were classified as common carriers, these cable partners could be subject to government-regulated tariff schedules for the amounts they could charge for our services.

Local agencies may require third party access. The third party access issue has also been raised in proceedings before local governments. Local governments must approve the transfer of TCI's cable systems to AT&T in connection with the AT&T's acquisition of TCI. America Online, U S West and some Internet service providers have asked local governments to impose a third-party access requirement on TCI as a

condition to approving the transfer, and Portland and Multnomah County, Oregon have imposed such a condition. AT&T and TCI have challenged this action in Federal District Court. Seattle and King County, Washington, are considering a similar condition. Other local governments are considering imposing third-party access requirements on cable operators in franchise renewal proceedings and in connection with transfers of cable systems between cable operators.

Canadian regulation could affect our business. Rogers and Shaw have informed us that, due to certain Canadian regulations, they are required to provide access to their respective networks to third-party Internet service providers. Although no third party currently uses Rogers' or Shaw's networks for the purpose of offering Internet services, these Canadian regulations preclude us from having an exclusive contractual right to access these networks.

Deregulation of telephone companies could enhance their ability to compete against our service. The FCC also is considering whether to provide the Bell operating companies and other incumbent local exchange carriers with significant relief from existing access, resale, unbundling, pricing, and cost recovery rules and policies, without regard to local access and transport boundaries, in order to encourage the deployment and operations by these carriers of high-capacity, packet-switched networks and other advanced telecommunications facilities and related services, including Internet access services. Deregulation of telephone company advanced services could enhance the ability of these companies to compete against the delivery of @Home's services by our cable partners.

WE COULD FACE LIABILITY FOR DEFAMATORY OR INDECENT CONTENT

It is possible that claims could be made against Internet and online service providers under both United States and foreign law for defamation, negligence, copyright or trademark infringement, or other theories based on the nature and content of the materials disseminated through their networks. Several private lawsuits seeking to impose such liability are currently pending. In addition, legislation has been proposed that imposes liability for or prohibits the transmission over the Internet of certain types of information. The imposition upon Internet and online service providers of potential liability for information carried on or disseminated through their systems could require us to implement measures to reduce our exposure to this liability. This may require that we expend substantial resources or discontinue certain service or product offerings. The increased attention focused upon liability issues as a result of these lawsuits and legislative proposals could impact the growth of Internet use. Furthermore, certain foreign governments, such as Germany, have enacted laws and regulations governing content distributed over the Internet that are more strict than those currently in place in the United States. One or more of these factors could significantly harm our business.

OUR PRO FORMA ACCOUNTING FOR THE EXCITE MERGER MAY CHANGE

The total estimated purchase price for the Excite merger has been allocated on a preliminary basis to assets and liabilities based on our best estimates of their fair values, with the excess costs over the net assets acquired allocated to goodwill and other intangible assets. This allocation is subject to change pending a final analysis of the fair values of the assets acquired and liabilities assumed. The impact of these changes could be material to our future results of operations.

CERTAIN TRANSACTIONS MAY RESULT IN ADDITIONAL DILUTION TO OUR STOCKHOLDERS

We have entered into agreements with Cablevision, Rogers, Shaw, certain other cable partners and other business partners pursuant to which we have issued warrants to purchase a total of 23,619,036 shares of our Series A common stock. Under these agreements, warrants to purchase 12,386,125 shares of our Series A common stock at an average price of $2.26 per share were exercisable as of December 31, 1998. To the extent that Cablevision, Rogers, Shaw, certain other cable partners or other business partners become eligible to and exercise their warrants, our stockholders would experience substantial dilution. We also may issue additional stock, or warrants to purchase stock, at prices less than fair market value in connection with efforts to expand distribution of the @Home service.

OUR STOCK PRICE IS SUBJECT TO SIGNIFICANT VOLATILITY

The stock market has from time to time experienced significant price and volume fluctuations. In addition, the market price of the shares of our Series A common stock, like the market prices of shares of other Internet companies, has been and is likely to be highly volatile. Factors such as fluctuations in our operating results, announcements of technological innovations or new products by us or our competitors, regulatory actions, market rumors, acquisitions in the Internet, telecommunications or cable industries and general market conditions may have a significant effect on the market price of our Series A common stock and other securities, such as our outstanding debentures, that are convertible into or exercisable for our Series A common stock.

RISKS RELATED TO OUR RELATIONSHIPS WITH OUR CABLE PARTNERS

WE DEPEND ON OUR CABLE PARTNERS TO UPGRADE TO THE TWO-WAY CABLE INFRASTRUCTURE NECESSARY TO SUPPORT OUR @HOME SERVICE; THE AVAILABILITY AND TIMING OF THESE UPGRADES ARE UNCERTAIN

Transmission of the @Home service and certain @Work services over cable depends on the availability of high-speed two-way HFC cable infrastructure. However, only a portion of existing cable plant in the United States and in certain international markets has been upgraded to HFC cable, and even less is capable of high-speed two-way transmission. Our cable partners have announced and begun to implement major infrastructure investments in order to deploy two-way HFC cable. However, certain of our cable partners have limited experience with these upgrades, and these investments have placed a significant strain on the financial, managerial, operating and other resources of our cable partners, most of which are already highly leveraged. Therefore, these infrastructure investments have been, and we expect will continue to be, subject to change, delay or cancellation. Although our commercial success depends on the successful and timely completion of these infrastructure upgrades, most of our cable partners are under no obligation to upgrade systems or to introduce, market or promote our services. The failure of our cable partners to complete these upgrades in a timely and satisfactory manner, or at all, would prevent us from delivering high-performance Internet services and would significantly harm our business.

OUR CABLE PARTNERS ARE NOT GENERALLY OBLIGATED TO CARRY OUR SERVICES, AND THE EXCLUSIVITY OBLIGATIONS THAT PREVENT THEM FROM CARRYING COMPETING SERVICES MAY BE TERMINATED

Our cable partners are subject to certain exclusivity obligations that prohibit them from obtaining high-speed (greater than 128 kilobits per second) residential consumer Internet services from any source other than us. However, most of our cable partners are under no affirmative obligation to carry any of our services, and the exclusivity obligations of our principal cable partners, TCI, Comcast, Cox and Cablevision, expire on June 4, 2002, and may be terminated sooner under certain circumstances. For example, our principal cable partners may terminate all their exclusivity obligations upon a change in law that materially impairs certain of their rights. Also, Comcast or Cox may terminate all exclusivity obligations of our principal cable partners at any time if there is a change of control of TCI that results, within one year, in the incumbent directors of TCI no longer constituting a majority of the TCI board of directors. AT&T has agreed with TCI not to take intentional actions that would allow termination of these exclusivity obligations. Either Comcast or Cox, based on relative subscriber criteria as of June 4, 1999 and as of each anniversary of that date, has the right to terminate the exclusivity obligations of our principal cable partners if TCI and its affiliates do not meet certain subscriber penetration levels for the @Home service. Based upon current subscriber penetration information available to us, it is uncertain whether TCI will meet these penetration levels at June 4, 1999 or in the future. If Comcast or Cox terminates the exclusivity obligations, this could significantly harm our business and cause an immediate drop in our stock price. Finally, Comcast may terminate its own exclusivity obligations upon its election after June 4, 1999 if it permits a portion of its equity in us to be repurchased by us at Comcast's original cost. Comcast has informed us that it has entered into an agreement with Microsoft Corporation under which Microsoft can require Comcast to terminate its exclusivity obligations after June 4, 1999. Although Microsoft has stated in the agreement that it has no present intention to do so, Microsoft may be more likely than Comcast to terminate Comcast's exclusivity obligations.

THE EXCLUSIVITY OBLIGATIONS OF OUR CABLE PARTNERS ARE LIMITED

The exclusivity obligations also are subject to exceptions that would permit our principal cable partners and their affiliates to engage in certain activities which could compete, directly or indirectly, with our activities. For example, each of these cable partners and its affiliates is permitted to:

- engage in any business other than the provision of high-speed residential consumer Internet services, including competing with our @Work operations

- maintain voting equity interests of 10% or less in public companies that directly compete with our @Home service and related Internet backbone connectivity services

- acquire an interest in any business that competes with our high-speed residential consumer Internet services (so long as the competitive business is not its primary business)

- acquire equity securities of public companies that compete with us, provided that it does not control (or is not under common control with) such companies

- operate a competing business in any cable system territory where the exclusivity obligations have been terminated

OUR CABLE PARTNERS MAY OFFER CERTAIN SERVICES DESPITE THEIR EXCLUSIVITY OBLIGATIONS Most of our cable partners' exclusivity obligations are limited to high-speed residential Internet services and do not extend to various excluded services that they may offer without us. These excluded services include:

- telephony services

- services that are primarily work-related (such as @Work services)

- residential Internet services that do not use the cable partners' cable television infrastructures, regardless of data transmission speed

- local Internet services that do not require use of an Internet backbone outside a single metropolitan area

- services that are utilized primarily to connect students to schools, colleges or universities

- Internet telephony, Internet video telephony or Internet video conferencing

- limited Internet services primarily intended for display on a television such as some types of Internet-based digital set-top services

- certain Internet services that are primarily downstream services where the user cannot send upstream commands in real-time

- streaming video services that include video segments longer than 10 minutes in duration

In addition, our cable partners can engage in limited testing, trials and similar activities with respect to businesses subject to their exclusivity obligations. By engaging in the excluded services, most cable partners can compete, directly or indirectly, with our activities, including our @Work services.

WE ARE PROHIBITED FROM OFFERING THE EXCLUDED SERVICES

Until the later of June 4, 2002 or such time as a principal cable partner is no longer in compliance with its exclusivity obligations, we may not offer the excluded services described above using a principal cable partner's cable plant, or to residences in the geographic areas served by its cable systems, without its consent. These restrictions apply even if we have integrated an excluded service with the @Home service in another geographic area. In the case of streaming video transmissions that include video segments longer than 10 minutes in duration, we face increased obligations to our principal cable partners that remain in compliance with their exclusivity obligations. Specifically, we have agreed not to allow these video transmissions using

their cable infrastructure or in the geographic areas served by their cable systems, without their consent. Therefore, we may never have access to the cable infrastructures of our principal cable partners for excluded services, and we must negotiate a separate agreement, including a new revenue split, if applicable, with each of the principal cable partners for each excluded service that we seek to provide over their cable infrastructures.

WE ARE CONTROLLED BY TCI

TCI controls approximately 71% of our voting power and has the power to elect a majority of our board members and to control all matters requiring the approval of our stockholders. TCI's Series B common stock carries ten votes per share and gives TCI the right to elect five Series B directors, one of which isdesignated by Comcast and one of which is designated by Cox. Currently, four of our 11 directors are directors, officers or employees of TCI or its affiliates.
As long as TCI owns at least 7,700,000 shares of our Series B common stock and holds a majority of our voting power, our Board may take action only if approved by the Board and by a majority of the Series B directors, three of five of which are designees of TCI. This allows TCI to block actions of our Board, even through the TCI directors may not then constitute a majority of the Board. In addition, TCI can expand the Board at any time and fill the vacancies with TCI designees to control a majority of the Board. Further, we may not take certain corporate actions without the approval of TCI's Series B directors and in certain cases the directors designated by Comcast and Cox. Notwithstanding these provisions, all of our directors owe fiduciary duties to our stockholders. If and when the merger of AT&T and TCI is complete, AT&T will control TCI and thus control us. Even if and when we complete the Excite merger, TCI or AT&T will continue to own more than 50% of our voting power.

WE MAY NOT REALIZE THE EXPECTED BENEFITS FROM, AND COULD BE HARMED BY, AT&T'S ACQUISITION OF TCI AND TCG

On June 24, 1998, TCI and AT&T announced that AT&T has agreed to acquire TCI. AT&T and TCI anticipate that their merger, which is subject to regulatory approval, will be completed in the first quarter of 1999. In addition, in July 1998, AT&T acquired Teleport Communications Group, Inc. While we believe that AT&T's acquisition of TCI and TCG may benefit us by increasing the rate at which TCI's cable facilities will be upgraded to the two-way HFC cable necessary to carry our services, by allowing us to utilize the strength of AT&T's brand in marketing the @Home service to consumers and by increasing the potential for cooperation between us and TCG, these benefits may not be realized and AT&T's TCI acquisition may not be completed. Moreover upon a change of control of TCI that results within one year in the incumbent directors of TCI no longer constituting a majority of the TCI board of directors, either Cox or Comcast can terminate the exclusivity obligations that apply to our principal cable partners. While AT&T has agreed with TCI not to take intentional actions that would allow termination of these exclusivity obligations, if AT&T did take these actions, either Cox or Comcast would have the right to terminate the exclusivity obligations of all our principal cable partners. This would significantly harm our business and cause an immediate drop in our stock price.

As discussed above, local franchise authorities could impose an obligation, in connection with AT&T's acquisition of TCI, that AT&T and TCI allow third parties to access TCI's cable infrastructure. The imposition of such an obligation could lessen the anticipated benefits of their merger, and therefore the benefits we may receive as a result of their merger.

WE MAY FACE ADDITIONAL COMPETITION FROM AT&T

AT&T operates certain businesses that could compete with our services, notwithstanding any exclusivity obligations that may apply to it if and when its acquisition of TCI is completed. First, AT&T operates a consumer Internet service known as AT&T WorldNet. Although AT&T WorldNet is currently a dial-up service that does not utilize broadband technologies, AT&T may be able to use non-cable-based data transport mechanisms to offer high-speed residential Internet services that compete with our @Home service. Second, AT&T owns TCG, which operates an Internet service for business customers that competes with our @Work service. Our @Work business depends to a significant extent on our agreement with TCG for local access telecommunications services. If TCG ceases to cooperate with us, our @Work business would be harmed. Because our @Work business is not subject to the cable partners' exclusivity obligations, AT&T or TCG are

not limited in their ability to compete with our @Work business. In addition, AT&T and Time Warner recently announced the formation of a significant strategicrelationship that will include a joint venture to offer AT&T-branded cable telephony service to residential and small business customers over Time Warner's existing cable television systems in 33 states. The relationship between AT&T and Time Warner could ultimately extend to other broadband services, including cable Internet services, that compete with our @Home service. Therefore, even once it controls us, AT&T may take actions that benefit TCG, WorldNet or other services of AT&T or other parties to our detriment.

WE DEPEND ON OUR CABLE PARTNERS FOR DISTRIBUTION; THIS CREATES CONFLICTS OF INTEREST

Through their cable systems, our cable partners provide the principal distribution network for our services, and they share the revenue from the @Home services that are derived from our subscribers. Given our contractual and business relationships with our cable partners, the interests of our cable partners may not always coincide with our interests, and conflicts of interest concerning the split of revenues and other matters exist. Because TCI, Cablevision, Comcast and Cox all operate cable systems that will be the primary distributors of the @Home service, situations may arise where their interests may diverge or appear to diverge from the interests of our other stockholders. TCI and the other principal cable partners, acting through their Board designees, have the ability to cause us to take certain actions or prohibit us from taking certain actions that may be favored by other stockholders or by the other directors who are not affiliated with our principal cable partners. Our Board, which is controlled by TCI, has the power, subject to directors' fiduciary duties, to approve transactions in which our principal cable partners have an interest, including amending or terminating their distribution agreement with us or changing the revenue splits in their favor. Under the agreements under which our U. S. cable partners distribute our services, we receive 35% of monthly fees and fees for premium services. However, most of these agreements, including the agreement with our principal cable partners, contain contractual "most favored nation" provisions, which provide that our principal cable partners are entitled to distribution arrangements and related services on terms at least as favorable as those obtained by any other cable system operator. Therefore, our principal cable partners have the power, subject to their fiduciary duties, to cause us to approve more favorable distribution arrangements, including more favorable revenue splits, for one or more unaffiliated cable operators in order to receive more favorable distribution arrangements themselves and reduce our share of subscriber fees.

WE DEPEND ON OUR CABLE PARTNERS TO MARKET, DELIVER AND SUPPORT THE @HOME SERVICE

Because subscribers to the @Home service will subscribe through a cable partner, the cable partner will substantially control the customer relationship with the subscriber. Each cable partner has complete discretion regarding the pricing of the @Home service to subscribers in its territories (except for certain premium services for which we may contract directly with the subscriber), and a cable partner could use the @Home service as a loss leader in order to increase demand for other products or services with more attractive terms. The cable partners do not have any affirmative obligations (other than the payment of revenue splits to us) with respect to marketing, installing and maintaining infrastructure for, providing customer service for and billing for the @Home service. In limited circumstances, such as a cable partner's failure to upgrade a cable system or roll out the @Home service after it has committed to do so, we may be entitled to certain cost reimbursements and to be released from certain of our exclusivity obligations, neither of which may be an effective remedy for the failure. Our business requires a substantial rollout of the @Home service, and if a widespread rollout does not occur, our business will not be viable. Moreover, our cable partners have in the past experienced, and may in the future experience, delays in installing the @Home service in areas in which it has been introduced. Our cable partners are expected to provide general customer service to our subscribers and, under their distribution agreements, have the option to provide technical support, rather than utilizing our service and support capabilities. If a cable partner elects to provide technicalsupport, we must reimburse them for our avoided costs, and we would have little or no control over the quality of customer service actually provided to subscribers of the @Home service. If the customer service and support provided by our cable partners are unsatisfactory to subscribers, consumer demand for the @Home service will likely diminish.

OUR CABLE PARTNERS CONTROL THE TERMS OF DISTRIBUTION OF THE @HOME SERVICE

We and our cable partners have entered into agreements providing for the distribution of the @Home service by our cable partners and their affiliates. The economic and other terms of these agreements may be less favorable to us than those that could have been negotiated had we been independent of our principal cable partners. In addition, the agreements with our principal cable partners contain provisions that permit a cable partner to change certain aspects of the distribution of the @Home service without our approval. For example, a principal cable partner has the option to provide certain customer service functions that we currently provide and upon which our 35% revenue split was based. If a principal cable partner elects to provide these services, it is also entitled to reimbursement of our avoided costs. Similarly, the principal cable partners have certain rights to remove cable systems from the approved rollout schedule or to substitute cable systems in place of removed systems. These rights are contractual in nature and may be exercised by the principal cable partners in their sole discretion. The exercise by the principal cable partners of these contractual rights may significantly harm our business. Our cable partners also control the rollout schedule of the @Home service, and our principal cable partners hold certain priority rights with respect to this rollout schedule. This priority could harm us because we may be required to roll out our services to our principal cable partners before rolling out the services to other cable system operators, even though the other cable system operators may be ready to roll out the @Home service sooner or on terms more favorable for us.

OUR PRINCIPAL CABLE PARTNERS CAN BLOCK ACCESS TO CERTAIN CONTENT AND SERVICES

Each principal cable partner has the right to exclude the promotion of specified national content providers from the @Home service offered through its cable systems, subject to an adjustment in the revenue split if the number of such exclusions exceeds a specified number. In addition, a principal cable partner has the right to block access to certain content, including streaming video segments of more than ten minutes in duration, and we are obligated to use reasonable best efforts to block such access. We are also obligated to use reasonable best efforts to consult with and involve each of the principal cable partners in the development of requirements for, design of and introduction of enhancements, new features and new applications of the @Home service. If principal cable partners representing a majority of the residential subscribers who subscribe to the @Home service object to any enhancement, feature or application, we have agreed not to implement that enhancement, feature or application in the territories of the objecting cable partners. If any of the cable partners exercise these rights to block access to certain content or services in certain territories, we may be required to devote substantial expenses and resources to provide different content and services in different territories and to assist them in blocking such access. This could significantly harm our business.

OUR CABLE PARTNERS MAY COMPETE WITH US FOR ADVERTISING AND PROGRAMMING REVENUE

While we retain 100% of the revenue from our programming of the designated national area of the @Home service, our principal U.S. cable partners retain 100% of revenue generated from their programming of a designated local area of the start page of the @Home service. These revenues could include advertising fees, service fees, content provider charges, transaction fees and promotionalrevenue. Accordingly, in exercising their right to program the local area, our cable partners could place a significant amount of advertising or program content on the @Home service for which we receive no share of the revenues. For example, given the national or regional coverage of their operations, any of our principal cable partners and its affiliates could strike agreements with advertisers that could effectively result in broad-based advertising campaigns reaching significant regions of the United States in competition with our advertising campaigns, generating revenue only for such cable partner and its affiliates and not for us. In Canada, we share national advertising revenue with our Canadian cable partners.

WE DEPEND ON TCG FOR LOCAL TELECOMMUNICATIONS SERVICES FOR OUR @WORK SERVICES

We depend on TCG, which is owned by AT&T, to provide local telecommunications services and co-location within TCG's facilities on favorable economic terms. This relationship enables us to provide @Work services to an entire metropolitan area in which TCG has facilities. If we were required to obtain comparable telecommunications services from local exchange carriers, we would effectively be limited to providing @Work services to commercial customers within a ten-mile radius of one of our points of presence. As a result, we would be required to build multiple points of presence to service an entire metropolitan area, which would substantially increase our capital costs to enter new markets and which could make such market

entry uneconomical. If we were required to pay standard local exchange carrier rates, the ongoing operating costs for our @Work services would be substantially higher. The loss of our strategic relationship with TCG would significantly harm our ability to deploy our @Work services. In addition, TCG has acquired a provider of Internet-related services to businesses and corporate customers and will compete directly with the @Work Internet service. To the extent TCG acquires or enters into strategic relationships with other Internet service providers, TCG may reduce its support of the @Work services. Although there are alternative suppliers for TCG's services, it could take a significant period of time for us to establish similar relationships, and equivalent terms might not be available.

OUR PRINCIPAL CABLE PARTNERS MAY DISPOSE OF THEIR CABLE SYSTEMS, WHICH WOULD REDUCE OUR POTENTIAL SUBSCRIBER BASE

Our agreements with our principal cable partners do not require that they maintain a specified number of cable systems, subscribers or homes passed in order to maintain their control over equity ownership of us. These principal cable partners may dispose of a significant amount of their cable systems without requiring that these cable systems remain subject to any exclusivity provisions. However, to the extent that any of our principal cable partners disposes of systems accounting for more than 20% of the number of homes passed in its service areas as of June 4, 1996 (subject to certain exceptions) without causing such transferred homes to remain exclusive to us, then that principal cable partner may be required to sell a proportionate amount of its equity interest in us to our other principal cable partners at fair market value. For example, TCI has completed the transfer or sale of certain cable systems and

has
announced the proposed sale or transfer of additional cable systems and is considering various plans and proposals that may result in the disposition of other of its cable systems. Although TCI has informed us that it is attempting to cause certain of these transferred systems to remain subject to TCI's exclusivity obligations, these efforts may not be successful. These dispositions
could significantly harm us if the transferred homes do not remain exclusive.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The index to our Consolidated Financial Statements and the Report of the Independent Auditors appears in Part IV of this Form 10-K/A.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

The information concerning our directors required by Item 10 is incorporated by reference herein to section entitled "Proposal No. 1 -- Election of Directors" of the proxy statement for our 1999 Annual Meeting of Stockholders that we will file by April 30, 1999. The information concerning our executive officers required by Item 10 is incorporated by reference to the section of our proxy statement entitled "Executive Officers."

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference to the sections entitled "Executive Compensation" and "Proposal No. 1 -- Election of Directors" of our proxy statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 is incorporated herein by reference to the section entitled "Security Ownership of Certain Beneficial Owners and Management" of our proxy statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 is incorporated herein by reference to the section entitled "Certain Transactions" of our proxy statement.

With the exception of the information specifically stated as being incorporated by reference from our proxy statement in Part III of this Annual Report on Form 10-K/A, our proxy statement is not to be deemed as filed as part of this report. The proxy statement will be filed with the Securities and Exchange Commission by April 30 1999.